

SOLDIER HOLLOW CHARTER SCHOOL

**FINANCIAL STATEMENTS
AND REPORTS IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Years Ended June 30, 2005 and 2004

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Soldier Hollow Charter School

We have audited the accompanying statements of financial position of Soldier Hollow Charter School (a nonprofit organization) as of June 30, 2005 and 2004 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Soldier Hollow Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Soldier Hollow Charter School as of June 30, 2005 and 2004 and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. ✓

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2005 on our consideration of Soldier Hollow Charter School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Squire & Company, PC

July 28, 2005

**SOLDIER HOLLOW CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION**

June 30, 2005 and 2004

	2005	2004
ASSETS		
Current Assets:		
Cash	\$ 174,966	\$ 220,188
Accounts receivable:		
Federal	18,856	-
State	364	149
Deposits and prepaid expenses	<u>2,000</u>	<u>2,000</u>
Total current assets	196,186	222,337
Capital Assets , net of accumulated depreciation of \$23,396 and \$21,257 at June 30, 2005 and 2004, respectively	<u>2,300</u>	<u>4,440</u>
Total assets	<u><u>\$ 198,486</u></u>	<u><u>\$ 226,777</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 2,691	\$ 1,637
Payroll and related benefits payable	12,109	25,366
Deferred revenue	<u>-</u>	<u>15,166</u>
Total current liabilities	14,800	42,169
Net Assets:		
Unrestricted:		
Net investment in capital assets	2,300	4,440
Undesignated	177,386	176,168
Temporarily restricted for:		
Specific educational program	<u>4,000</u>	<u>4,000</u>
Total net assets	<u>183,686</u>	<u>184,608</u>
Total liabilities and net assets	<u><u>\$ 198,486</u></u>	<u><u>\$ 226,777</u></u>

The accompanying notes are an integral part of these financial statements.

**SOLDIER HOLLOW CHARTER SCHOOL
STATEMENTS OF ACTIVITIES**

Years Ended June 30, 2005 and 2004

	2005	2004
Unrestricted Net Assets		
Revenues and Support:		
Federal charter school grant	\$ 18,856	\$ 1,400
State funding	312,520	251,429
Fundraising events	18,954	-
Contributions	2,109	41,263
Interest	1,659	887
Other income	5,989	5,925
Total revenues and support	360,087	300,904
Expenses:		
Program Services (School):		
Salaries	196,282	160,697
Employee benefits	63,539	32,039
Building	27,600	23,525
Supplies and materials	20,392	17,603
Professional and technical	4,033	4,279
Utilities and custodial	5,488	6,750
Equipment	4,319	12,433
Other expenses	6,915	1,538
Total program services	328,568	258,864
Supporting Services:		
Management and general	29,798	26,588
Fundraising	2,643	1,407
Total supporting services	32,441	27,995
Total expenses	361,009	286,859
Change in Net Assets	(922)	14,045
Net Assets at Beginning of Year	184,608	170,563
Net Assets at End of Year	<u>\$ 183,686</u>	<u>\$ 184,608</u>

The accompanying notes are an integral part of these financial statements.

**SOLDIER HOLLOW CHARTER SCHOOL
STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2005 and 2004

	2005	2004
Cash Flows from Operating Activities:		
Change in net assets	\$ (922)	\$ 14,045
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,140	2,345
(Increase) decrease in operating assets:		
Accounts receivable:		
Federal	(18,855)	-
State	(216)	(121)
Local	-	5,016
Deposits and prepaid expenses	-	400
Increase (decrease) in operating liabilities:		
Accounts payable	1,054	(353)
Payroll and related benefits payable	(13,257)	16,773
Deferred revenue	(15,166)	15,166
Total adjustments	(44,300)	39,226
Net cash provided (used) by operating activities	(45,222)	53,271
Cash Flows from Investing Activities:		
Purchase of capital assets	-	(3,328)
Net Change in Cash	(45,222)	49,943
Cash and Cash Equivalents at Beginning of Year	220,188	170,245
Cash and Cash Equivalents at End of Year	<u>\$ 174,966</u>	<u>\$ 220,188</u>

Supplemental Information:

Soldier Hollow Charter School paid no interest or income taxes for the years ended June 30, 2005 and 2004, respectively.

There were no noncash investing or financing activities for the years ended June 30, 2005 and 2004, respectively.

The accompanying notes are an integral part of these financial statements.

SOLDIER HOLLOW CHARTER SCHOOL NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization and Activities – Soldier Hollow Charter School (the School) was incorporated on May 6, 1999, and is operated as a nonprofit organization involved in elementary education. The School was formerly known as Sundance Mountain School. During 2003, the School changed its name and obtained approval to amend its charter accordingly. Soldier Hollow Charter School currently operates one charter school in Midway, Utah, for students from first through sixth grade. These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Income Taxes – The School is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and has received a determination letter in this regard. The School is considered a public charity.

Cash – The School considers all deposits and highly liquid investments with a maturity of three months or less when acquired to be cash or cash equivalents.

Capital Assets – The School's capital assets consist of purchased and donated equipment. Capital assets valued at \$1,000 or more are capitalized and depreciated, using straight-line depreciation, over three to ten years.

Donated Services – No amounts have been reflected in the financial statements for donated services. However, many individuals volunteer their time and perform a variety of tasks that assist the School with specific programs, administration, and Board assignments.

Donated Capital Assets – Donations of equipment are recorded as contributions at their estimated fair values at the date of donation. Such donations are recorded as increases in unrestricted net assets.

Financial Statement Presentation – The School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Revenue Recognition – The principal source of operating funds for the School is derived from federal, state and local funds. The School receives state and local funding based on the number of students enrolled in the School. The School receives federal and state charter school grants. Certain funds are received on a reimbursement basis and accordingly, revenues of funds from those sources are recognized as qualifying expenses have been incurred and all other grant requirements have been met.

SOLDIER HOLLOW CHARTER SCHOOL NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Allocation of Expenses – Directly identifiable expenses are charged to programs and supporting services. Management and general expenses include those expenses that are not directly identifiable with any specific function, but provide for the overall support and direction of the School.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Data – Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Note 2. Cash

At June 30, 2005, the School's book balance of deposit accounts totaled \$174,966. The bank balance was \$182,787, \$100,000 of which was covered by federal depository insurance.

Note 3. Leases

The School has entered into an operating lease for its facilities. Lease payments for the years ended June 30, 2005 and 2004, totaled \$27,600 and \$23,525, respectively. Future minimum lease payments under this lease will be \$29,550, \$29,700, and \$2,475 for the years ending June 30, 2006, 2007, and 2008, respectively.

Note 4. Defined Contribution Pension Plan

The School has a defined contribution pension plan (the Plan) covering all full-time employees. The School makes contributions to the Plan each year equal to 1.5% of all participants' compensation. The School contributed \$2,332 and \$0 for the years ended June 30, 2005 and 2004, respectively.

Note 5. Defined Benefit Pension Plan

Plan Description – The School contributes to the State and School Noncontributory Retirement System, cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the

SOLDIER HOLLOW CHARTER SCHOOL NOTES TO FINANCIAL STATEMENTS

Note 5. Defined Benefit Pension Plan (Continued)

direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School

Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy – For plan members of the State and School Noncontributory Retirement System, Soldier Hollow Charter School is required to contribute 13.38% of their annual covered salary. The contribution rate is the actuarially determined rate. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The School's contribution to the State and School Noncontributory Retirement System was \$20,803 and \$0 for the years ending June 30, 2005 and 2004, respectively. The contribution was equal to the required contribution for the year.



**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards**

Board of Directors
Soldier Hollow Charter School

We have audited the financial statements of Soldier Hollow Charter School (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated July 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Soldier Hollow Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Soldier Hollow Charter School in a separate letter dated July 28, 2005. ✓

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Soldier Hollow Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance that we have reported to management of Soldier Hollow Charter School in a separate letter dated July 28, 2005. ✓

This report is intended solely for the information and use of the Board of Directors, management, and federal and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Squire & Company, PC

July 28, 2005



**Independent Auditor's Report on Legal Compliance
in Accordance with the *State of Utah*
*Legal Compliance Audit Guide***

**Board of Directors
Soldier Hollow Charter School**

We have audited the financial statements of Soldier Hollow Charter School (the School) (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated July 28, 2005. As part of our audit, we have audited the School's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to its major state assistance program as required by the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2005. The School received the following major state assistance program from the State of Utah (passed through the State Office of Education):

Minimum School Program (State Board of Education)

The management of the School is responsible for the School's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Soldier Hollow Charter School complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major state assistance program for the year ended June 30, 2005. ✓

Squire & Company, PC

July 28, 2005



Letter to Management

July 28, 2005

Board of Directors
Soldier Hollow Charter School

In planning and performing our audit of the financial statements of Soldier Hollow Charter School for the year ended June 30, 2005, we noted certain matters for your consideration. This letter summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated July 28, 2005, on the financial statements of the School. Also, reportable conditions and material internal control weaknesses, if any, are included in our report dated July 28, 2005, in accordance with *Government Auditing Standards*.

Status of Prior Year Comments:

Accounting for Restricted Funds and Compliance with State Funding Restrictions – For the year ended June 30, 2005 we noted that the School has modified its accounting system and is tracking restricted state and federal funds. The School's management has familiarized itself with compliance requirements for State charter school funding, and we did not discover, during the course of our audit, any instances of noncompliance with the state's guidelines for charter school funding.

Current Year Comments:

Tracking of Donated Items – Proper tracking of donated items is necessary to ensure that all appropriate support is being reflected in the financial statements. Donated *materials* that have a value and a use to the School should be recorded and proper documentation should be maintained to ensure the fair values of the materials are properly calculated. In addition, donated *services* that either 1) create or enhance a non-financial asset or 2) require specialized skills, are provided by entities or persons possessing those skills, and would need to be purchased if they were not donated, should be tracked and recorded as support to the School.

Views of Responsible Officials – The policy now states that donated materials of value must be recorded and documented. In addition, we will now track and properly document (a) donated services that create or enhance a non-financial asset, and (b) donated services that require a specialized skill and are provided by people possessing that skill and would need to be purchased if that skill was not donated.

We will review the status of this comment during our next audit engagement. We have already discussed these comments and suggestions with School personnel, and we will be pleased to discuss them in further detail at your convenience. We appreciate being able to work with School personnel in our audit. We note the concern that the staff takes in accounting for School financial information.

Squire & Company, PC

Squire & Company, PC